

Memorandum

To: Panel Members Date: January 23, 2003

From: Ron Tagami, Manager Analyst: S. Lipkin
Peter DeMauro, General Counsel

Subject: One-Step Agreement for **Eaton Aerospace Sterer Fluid Controls**
(www.eaton.com)

CONTRACTOR:

- Multiple Employer: Employer Consortium
- Training Project Profile: Retraining: companies with out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: NA

CONTRACT:

- Program Costs: \$229,100
- Substantial Contribution: \$0
- Multiple Employer Support (0%) \$0
- Total ETP Funding: \$229,100
- In-Kind Contribution: \$791,025
- Maximum Contractor Charge: 0 per trainee
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles And Ventura
- Duration of Agreement: 24 months

SUBCONTRACTORS:

California Training Coalition, Upland, California	\$71,250 (Training)
California Training Coalition, Upland, California	\$30,000 (Administration)
Tru Lingua Language Systems, Newport Beach, California	\$4,500 (Training)

THIRD PARTY SERVICES:

California Training Coalition assisted with the preparation of the Training Plan, Curriculum, Single Employer Certification, Consortium Accord and other Agreement requirements. The amount reimbursed for services is \$20,000, which the applicant states is based on a flat rate.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET8-0682	Los Angeles	3/2/98-3/1/00	\$247,420	\$160,172	65%

ACTIVE PROJECTS:

The following are current project statistics:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number Hired (Complete for new hires only)	Number retained for 90 days
ET01-0156	11/6/00-11/5/02	\$275,880	308	312	148	NA	*0

*The Contractor expects approximately 148 trainees to be retained. The company states its poor performance in this contract is due to extenuating circumstances. Dramatic economic changes in the past 15 months and the accompanying business pressures have forced the company to postpone most of the training. The events of September 11, 2001 resulted in an immediate move-up in the delivery dates of military products. Due to the war effort, the company's customer base has shifted to more than 60% military and defense. Because of contractual commitments to military priority ratings on the company's products, priorities were set on production rather than training. The urgency that the U.S. government imposed on the company to deliver products months ahead of schedule forced it to add large amounts of overtime and prioritize production first, which moved all training back in schedule, forcing the company to run out of time in its ETP program.

NARRATIVE:

This is the sixth project between the Employment Training Panel and Eaton Aerospace Sterer Fluid Controls.

This project is eligible for ETP funding under the out-of-state competition provisions outlined in Title 22, California Code of Regulations, Section 4416(b) a company engaged in manufacturing.

Eaton Aerospace Sterer Fluid Controls (Sterer) was founded in 1952, and was originally known as Sterer Engineering and Manufacturing Company. In 1986, Sterer became a division of Vickers, Inc. until 1999 when Eaton Aerospace purchased the company. The company produces and services precision-quality, high performance hydraulic and pneumatic components and systems including aircraft flight surface controls, nose wheel steering systems, brake control systems, landing gear controls, thrust reverser actuation and integrated motor and valve modules. Sterer technology helped men walk on the moon and every time the shuttle has landed, Sterer nose wheel steering guides it down the runway. The company's products are also used on every major commercial and military platform in flight today.

Although business performance has improved in the last few years which is a direct result of ETP-funded training, it has not yet met the company's business objectives for customer satisfaction. With improved customer satisfaction, Sterer will be able to take advantage of greater marketplace opportunities and associated growth.

The challenges facing the company since September 11, 2001 forced Sterer to postpone training in order to meet delivery dates imposed by the U.S. government. Because of an impending war, Sterer's customer base shifted to 60% military and defense. The company was unable to complete the ETP-funded training because large amounts of overtime were necessary to meet production needs, and training was pushed back until the company ran out of time in its ETP program. In the last several months, Sterer has been able to adjust its staffing to meet the increased volume of production. Now it must continue training its workers to function smoothly in teams, communicate effectively, and solve problems as they arise. In this way, it may continue to convert to a high performance workplace.

In addition to training Sterer workers, the company is proposing to train 20 employees who work for its suppliers. Sterer cannot meet its goals of on-time delivery and quality products if its suppliers are not able to provide on-time delivery and quality products. If Sterer is to meet its goals it must integrate its training to include six key suppliers. With improved skills derived from the proposed training, Sterer will be able to evolve into a high performance workplace environment of process improvement. The combined training will increase productivity and customer satisfaction across all of the organizations.

Continuous Improvement will include high involvement team training for all workers which will help to build teams within the products groups. This training will improve communications. Engineering and production workers will learn process mapping skills that will equip them with tools to make effective business decisions in real time situations. Sterer's suppliers will receive Lean Manufacturing training which will help them understand the Sterer lean manufacturing techniques. After training, decisions will be the result of a team effort between suppliers and Sterer workers. Participating employers will write their own purchase orders, make the parts, and deliver them to Sterer just-in-time.

Manufacturing Skills will enable production workers to make timely, team oriented, business-wise decisions with quality and precision. Production and Engineering staff will work with seamless communication throughout all organizations.

NARRATIVE: (continued)

Management Skills will be given to all Sterer Managers and Supervisors. They will develop an alignment of their personal and departmental functional vision, goals, and objectives to manage change in this ever-changing business. After training, Managers and Supervisors will be able to guide their groups out of a task-oriented mode and into the communicative and responsive high performance units that partner the vendors and customers.

Business Skills will help to develop the communication skills of Product Line Workers, Managers, and Supervisors to better handle the challenge of more complex projects with a higher degree of effectiveness. Managers and Supervisors will be able to organize, present and communicate information to workers and customers effectively. Project and Program Managers will be able to understand and master critical elements of managing multiple projects and programs.

Literacy Skills will give 20 Production Workers at Sterer a production knowledge in English terminology necessary to understand the proposed training in Communication and Business Skills.

Employer Demand

Currently, one of the biggest challenges affecting the continued improvement in customer satisfaction is the performance of Sterer's suppliers, a majority of whom are small businesses located near the Los Angeles plant. As the company looks to the future, it realizes that its performance can only be as good as the suppliers' ability to deliver well-made, quality parts on time.

Recently, Sterer decided to invest its own money to provide resources and training to a minority-owned supplier, Code Engineering in Chatsworth, California, to help improve its performance. This supplier had a consistently poor record for product delivery and quality to the point where the company was considering utilizing another supplier located out-of-state. Shortly after staff participated in the Continuous Improvement training provided by Sterer, Code Engineering improved and Sterer felt secure in awarding it additional business. Sterer now sees an opportunity to integrate its next ETP-funded project to include its key suppliers to meet Sterer's standards of on-time delivery, performance and quality.

Justification of High Cost

The Contractor proposes to train 20 workers in Job Number 3 who are employed by the Contractor's suppliers at a cost of \$3,720 per trainee. Trainees work for small businesses with less than 100 employees. They will receive a total of 200 hours of training with the reimbursement rate of \$18.60 per hour. This amount is computed based on 40 hours of classroom training at \$13 per hour conducted centrally at the Contractor's worksite, and 160 hours of training at \$20 per hour conducted at the individual participating employers' worksites with one to four trainees in each session receiving classroom and laboratory instruction.

The cost of training is high because these trainees have never had any exposure to Lean Manufacturing concepts and therefore need much more training than Sterer employees do. After a thorough assessment, it was determined that trainees need a minimum of 200 hours of training to be able to utilize Lean Manufacturing techniques. Of the 20 trainees, 15 will be earning \$18.78-\$26.00 per hour and four trainees will earn \$15.00-\$17.00 per hour. Only one trainee out of the 20 will be earning \$14.00 per hour. The average wage for these 20 trainees will be \$19.70 per hour.

NARRATIVE: (continued)

Supplemental Nature of Training

This proposal is designed to complete the previous ETP-funded project which was interrupted by the events of September 11, 2001 and the subsequent demands on production. It is also designed to implement a system to bring the company's key suppliers in California up to Sterer's standards of delivery, performance and quality.

For the last several years, it has been typical for employees of Sterer to receive approximately 20 hours of training per year including new employee orientation, safety standards, harassment prevention, job-specific seminars, ISO 9000 training, and job-specific cross-training. This training will continue and the costs will continue to be absorbed by the company. This proposal consists of new training to Sterer workers, most of which was scheduled in the previous ETP contract, but never implemented. This supplemental training cannot be undertaken by the company in this form and manner without the help of ETP funding. As technology is constantly changing, it is imperative that Sterer continues to strive to change its culture to a high performance workplace in order to remain competitive.

At the conclusion of the ETP-funded contract, Sterer will implement training that will complement the ETP-funded training in Continuous Improvement, Manufacturing Skills, Customer Service Skills, Computer Skills and Technical Skills to its frontline staff.

Sterer's suppliers who will participate in this proposal are six small manufacturing companies with no more than 52 employees. None of the companies have organized training for their production employees except for an orientation for new employees, safety training, supervisory training, and job-related cross-training. In no case has Continuous Improvement training been offered to anyone in these participating companies. The participating employers plan on using this ETP-funded training as a "jump-start" on their overall lean manufacturing goals.

In-Kind Contribution

Sterer will make an employer contribution that totals \$688,500 which includes \$558,500 for wages paid to trainees while in training and \$130,000 for other training related costs such as project development, training materials, and the cost of hiring temporary workers to replace the trainees while they are in training.

The six participating employers will make an employer contribution that totals \$102,525 which includes \$96,525 for wages paid to trainees while in training and \$6,000 for facilities and equipment.

COMMENTS:

A substantial contribution is not applied because the Contractor has earned less than \$250,000 from the Employment Training Panel in the last five years.

Of the 305 participants in this project, 280 trainees meet the Panel definition of frontline worker under Title 22 California Code of Regulations, Section 4400 (ee) (3).

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funds are available and the project meets Panel priorities based on Sterer's stated need to provide employees with skills to enhance its ability to remain competitive, to grow, and to maintain a continuing relationship with its customers. The implementation of this proposed training will enable the company to remain viable in the California economy.

TRAINING PLAN:

Grp/ Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job 1 Retrainee	Continuous Improvement, Business Skills, Management Skills, Manufacturing Skills	265	40	0	0	\$520	\$12.80-\$47.80
Job 2 Retrainee	Continuous Improvement, Business Skills Manufacturing Skills, Literacy Skills	20	65	0	0	\$845	\$13.55-\$20.30
Job 3 Retrainee	Continuous Improvement	20	200	0	0	\$3,720	\$14.00-\$26.00
					<u>Range of Hourly Wages</u>		
					\$12.80-\$47.80		
					<u>Prevalent Hourly Wage</u>		
					\$23.88		
					<u>Average Cost per Trainee</u>		
					\$751		
<u>Health Benefit used to meet ETP minimum wage:</u>					<u>Turnover Rate</u>	<u>% of Mgrs & Supervisors to be trained:</u>	
NA					12%	8%	

Total Hours
Class/
Lab
40 – 65

Eaton Aerospace Sterer Fluid Controls Menu Curriculum (Jobs 1 & 2)

Trainee will receive any of the following:

CONTINUOUS IMPROVEMENT

Process Improvement - Process Mapping

High Involvement Teams

Decision Making

Root Cause Analysis - Problem Solving

Quality System and Procedures

MFG Pro/Matrix One Enterprise Resource Planning (ERP)

Pro Launch

Lean Manufacturing

Lean Definition of Waste

5S (Sorting, Orderliness, Sanitizing, Standardizing, and Self-Discipline)

Standardized Work

Value Stream Mapping (Current State)

Value Stream Mapping (Future State)

Total Preventative Maintenance (TPM)

Continuous Flow

Pull System

Set-Up Reduction

Error Proofing

Kiazen Event

MANUFACTURING SKILLS

Production Part Approval Process (PPAP), Advanced Product Quality Planning (APQP), and Measurement Systems Analysis (MSA)

Failure Mode Effects Analysis (FMEA)

Statistical Process Control (SPC)

Manufacturing and Shop Math

Blue Print Reading

Computerized Numerical Control (CNC) Programming

Surface Mount Technology

Electronics

- *Schematics*

- *Controls*

Mechanical

- *Pneumatics*

- *Hydraulics*

Total Hours
Class/
Lab
40 – 65

Eaton Aerospace Sterer Fluid Controls Menu Curriculum – Continued (Jobs 1 & 2)

Trainee will receive any of the following:

MANAGEMENT SKILLS

Management Skills
- Management Excellence
- High Performance Management
High Results Leadership Training
Supervisor Skills
Finance for non-financial managers

BUSINESS SKILLS

Business Writing
Project Management Fundamentals
Presentation Skills
Customer Service Relations

LITERACY SKILLS

Job 2 trainees will receive no more than 20 hours of Literacy Training

Vocational English as a Second Language (VESL)
Production Terminology
Understanding Continuous Improvement and Business Skills

Total Hours
Class/
Lab
200

Eaton Aerospace Sterer Fluid Controls Participating Employer Curriculum (Job 3)

Trainee will receive any of the following:

CONTINUOUS IMPROVEMENT

Lean Manufacturing

5S

Lean Definition of Waste

Standardized Work

Value Stream Mapping (Current State)

Value Stream Mapping (Future State)

Total Preventative Maintenance (TPM)

Continuous Flow

Pull System

Set-Up Reduction

Error Proofing

Kiazen Event

**Participating Employers in Retrainee/New Hire
Multiple Employer Contracts**

Contractor's Name: Eaton Aerospace Sterer Fluid Controls

CCG No.: ET03-0249

Reference No: 03-0127

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PRINT OR TYPE

Company: Coronado Manufacturing, Inc.

Address: 8991 Glenoaks Blvd

City, State, Zip: Sun Valley, CA 91352

Contact Person/Title: Al Gowing

Telephone No.: 818-768-5010

Collective Bargaining Agreement(s): No

Estimated #of employees to be retrained or hired under this Agreement: 1

Total # of full-time company employees worldwide: 35

Company: Dow Precision Hydraulics, Inc.

Address: 1835 Wright Street

City, State, Zip: La Verne, CA 91750

Contact Person/Title: Ryan Dow

Telephone No.: 909-596-6602

Collective Bargaining Agreement(s): No

Estimated # of employees to be retrained or hired under this Agreement: 3

Total # of full-time company employees worldwide: 52

Company: Paramount Machine Company, Inc.

Address: 10824 Edison Court

City, State, Zip: Rancho Cucamonga, CA 91730

Contact Person/Title: Greg Harsen

Telephone No.: 909-484-3600

Collective Bargaining Agreement(s): No

Estimated # of employees to be retrained or hired under this Agreement: 3

Total # of full-time company employees worldwide: 27

**Participating Employers in Retrainee/New Hire
Multiple Employer Contracts**

Contractor's Name: Eaton Aerospace Sterer Fluid Controls

CCG No.: ET03-0249

Reference No: 03-0127

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PRINT OR TYPE

Company: Riggins Engineering, Inc.

Address: 13932 Saticoy Street

City, State, Zip: Van Nuys, CA 91402

Contact Person/Title: Joe Grossnickle

Telephone No.: 818-782-7010

Collective Bargaining Agreement(s): No

Estimated #of employees to be retrained or hired under this Agreement: 3

Total # of full-time company employees worldwide: 38

Company: Ronlo Engineering, Ltd.

Address: 955 Flynn Road

City, State, Zip: Camarillo, CA 93012

Contact Person/Title: Stefan Gamble

Telephone No.: 805-388-3227

Collective Bargaining Agreement(s): No

Estimated # of employees to be retrained or hired under this Agreement: 2

Total # of full-time company employees worldwide: 21

Company: True Position Technologies, Inc.

Address: 2471 Avenue Rockefeller

City, State, Zip: Valencia, Ca 91355

Contact Person/Title: Allen Sumian

Telephone No.: 661-294-0030

Collective Bargaining Agreement(s): No

Estimated # of employees to be retrained or hired under this Agreement: 4

Total # of full-time company employees worldwide: 50